FRAME — TRUE VS. FALSE

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TRUE VS. FALSE

Currency Reform

....BY....

...ments of

A. J. FRAME,

President of the Waukesha National Bank,

—AND—

Ex-President Wisconsin Bankers' Association.

READ BEFORE
THE MILWAUKEE BANKERS' CLUB,
AT MILWAUKEE, APRIL 15, 1899.

WAUKESHA FREEMAN PRINT.

A STRONG FOUNDATION STANDS THROUGH STORM AS WELL AS SUNSHINE.

READ SOME PRESS AND PRIVATE COMMENTS.

New York Journal of Commerce says—"An admirable address."

New York American Banker—"With the premises and conclusions of the paper we are in full accord. It is a strangely neglected side of the question, when we consider the mass of writing and speaking which is done on the currency question, etc."

New York Financier—"A strong currency plan," quoting liberally.

New York Times devotes a column in quoting from its pages.

Chicago Tribune calls it a "destructive criticism of Asset Currency" and quotes about a column from it.

Milwaukee Sentinel publishes the paper in full.

The Milwaukee Journal says—"It can be truthfully said the address is able, well prepared and full of information on each point discussed," and quotes liberally.

SOME PRIVATE COMMENTS.

First National Bank of Milwaukee, Wis.

Dear Sir—I have carefully read your paper reviewing the work of the Indianapolis Monetary Commission.

It shows great research, is ably presented, and it should be very interesting to all intelligent students of systems of currency and finance.

I consider it a strong contribution to the literature of the subject.

Yours Truly,

F. G. BIGELOW, President.

First National Bank of Chicago, Ill.

Dear Sir—I have carefully read your paper on "True vs. False Currency Reform" and think it a very creditable one. You have gone very fully into the subject, your arguments are well made, and your suggestions are along conservative lines. The paper is well worthy of circulation and it will disseminate valuable information which is much needed in connection with the currency question at present.

Yours Very Truly,

JAS. B. FORGAN, Vice Pres't.

N. W. Harris & Co., Chicago, Ill.

Dear Sir—I say Amen! to all your arguments. It seems to me that any one who has studied the question at all will endorse your sound logic. It contains an abundance of meat (not embalmed) and strikes right home. I am sure the public will be interested in it.

E. E. BLACK, of the Firm of N. W. Harris & Co.

Cheyenne, Wyoming.

Dear Sir—I have read with much interest your article on "True vs. False Currency Reform" and beg to second your most excellent suggestions. You have apparently studied the question from a practical standpoint. Practical suggestions from practical men will have a good effect in shaping financial legislation.

HARRY B. HENDERSON, State Bank Examiner.

TRUE vs. FALSE.

Currency Reform.

Solomon said "He that answereth a matter before he heareth it, it is folly and shame unto him."

The advocates of the Monetary Commission and McCleary so-called Currency Reform Bills have had their day in court. Will the public give a respectful hearing to the dissenters on some points, and then render its verdict?

The main points of contention of the advocates of those bills are:

1st. The unquestioned maintenance of the gold standard in the U. S.

2d. The retirement of the U. S. Government from the Banking business by the withdrawal of the U. S. Notes from circulation.

3rd. In the accomplishment of these objects the Banks of the country are to assume the issue of currency, redeemable in gold coin, as a substitute for the Government issues, thus relieving the Government of gold redemption.

4th. Instead of the Bank currency being secured by a deposit of U. S. Bonds, as is now done, the issues will be secured by a first lien on the assets of the issuing Banks.

5th. The withdrawal of Gold Certificates.

6th. The Elastic Problem.

7th, The authorization of Branch Banking.

The first point as to needed legislation to cover the unquestioned maintenance of the gold standard is not a debatable one, as all friends of True Currency Reform concede the necessity for it.

The second point seems to be a debatable one with many good people in this country, but I am clearly of the opinion that they are in error in their conclusions, as the history of the progressive nations of the earth as well as our own experience proves.

Why does Germany not issue a Government Currency to save borrowing money? Why do not Britain with a bonded debt three times ours and France with a like debt six times ours, issue currency to save interest on their debts?

Because these old nations have proved by practical experience that serious trouble is an almost certain result of Political bodies trying to regulate the quantity of money in any country, and it is written over and over again in the works of the best writers on Political Economy that it is not the province of Government to look to the *quantity* of money in any country. It is only imperative that the *quality* should be unquestioned and the needs of commerce will settle the *quantity*.

A NOISOME PESTILENCE.

What invited the panic of 1893? Politics and distrust bred it. Distrust is the father of business paralysis, and scheming politicians, pessimists and calamity shriekers are the hens that incubate the eggs. Their continual cackling is a noisome pestilence in the land. I challenge any Populist, Pessimist or Politician to point to any time in any country in the World's History, when laboring men were better paid, better housed, better clothed or better fed, than in the United States to-day. The sad spectacle of the richest and most prosperous nation on the globe, with the smallest comparative debt, trailing its credit in the mire of distrust, because it *would* not settle absolutely in the minds of the public by a simple resolution that it would under all circumstances pay all its obligations in a 100 cent dollar, is indeed pitiable.

Neither Republicans nor Democrats in their own private business commit voluntary suicide by such acts. It is cause for gratitude that after a campaign of education—coupled with a more potent power to wit: our innumerable object lessons in prosperity vs. the predictions of the calamity prophets—the people have again spoken rightly. The repudiators have again been repudiated, and with all the legislative branches of the Government after March 4th, 1899, in the hands of the sound money party—thanks to the noble army of Gold Democrats—we should without fail at the next session of Congress, place upon the Statute Books of the U. S. a law making it obligatory opon the Secretary of the Treasury, and all other officers of the Government, to pay all obligations of this Government in that standard of value recognized by the progressive nations of the earth, the Gold Standard, and to sell bonds

if necessary to maintain that Standard. When such a law is once put upon the Statute books, no free silver "without waiting for any other nation on earth" President or Secretary of the Treasury would dare disobey its mandates; its repeal would require a complete overturning of all branches of our Government, fortunately an impossibility for many years to come.

Then if the Government desired to place any more loans, par or better could be had for a 2½ per cent. bond. If such a resolution had been upon the Statute books when the late sale of $200,000,000., of bonds took place, a neat little sum of not less than ten million dollars might have been saved in ten years in interest alone. The panic of '93 is the legacy to our people of a Government Currency regulated by a political body and our present duty is to apply an ample remedy which shall prevent, as far as possible, its recurrence What I consider to be such a remedy will be presented later, together with the discussion of the third point.

ASSET CURRENCY.

Now for the fourth point. I have been from the very first opposed to the Baltimore plan of issuing currency by banks secured upon a first lien on their general assets. I have given the matter careful consideration, have studied the different monetary systems of the enlightened nations of the earth, and after 37 years of practical banking experience, I unhesitatingly declare that the proposition to give to our thousands of banks, large and small, in city and country, authority to issue currency, secured by a first lien on assets is unsound and has not a parallel on earth, the Canadian system not excepted. I know I am far from being alone in my views on this subject. The vigorous and telling arguments of Comptroller Dawes in his report, confirm it. Correspondence and personal contact with high government officials, eminent bankers and even members of the Monetary Reform Commission prove my statement. The measure I call populistic, with only one safety valve, the Government supervision of the banks. But that is not adequate to prevent *distrust* and *disaster*. The advocates of asset currency are continually quoting Canadian, Scotch, English, French, German and other foreign systems as well as systems in the U. S. to prove their arguments. What are the facts? Let us reason together a little. The Sound Currency Red Book is a strong advocate of asset currency and labors to prove parallelisms. In refuting its arguments, I quote from its

own pages. Under the head of "The World's Bank Note Systems" by L. Carroll Root, pages 189 to 204, 1898 issue, we find the following facts, which facts are corroborated by the "Report of the Monetary Commission" pages 277 to 308 under the head of "Instances of Bank Notes based on Commercial assets."

GREAT BRITAIN.

The Bank of England issues £16,800,000 of notes on a deposit of the same amount of Government Securities. It has 30 to 40 million pounds sterling in notes outstanding constantly in addition, but every note has its value in gold behind it. The large private and chartered banks of England, Scotland and Ireland in 1844 and 1845 were limited to the amount of their uncovered notes to banks then doing business, and 70 per cent. of the right of issue of any of these banks going out of business since that date has reverted to the Bank of England. Since 1844 this has reduced the maximum uncovered issues £4,000,000 and added £2,800,000 to the Bank of England issues. Of late the whole amount of asset currency issued by all the big 106 issuing banks of England, Scotland and Ireland has been approximately the insignificant sum of six million pounds sterling or about one-half of the maximum allowed, and all the rest of their circulation has Government securities or gold behind it. What is the secret? *Unlimited liability* of every bank stockholder for every note in circulation. The people there have not forgotten that those words "Unlimited liability" cost a £1,000 stockholder in the great City of Glasgow Bank with its 131 branches (which failed in 1878 for seventy million dollars) his whole fortune of more than a million pounds sterling, as well as ruining thousand of families in the south of Scotland. The clear intent of Britain is to entirely eliminate bank note currency from her circulation excepting only that of the Bank of England.

FRANCE.

Since 1848 the Bank of France has had the sole right of issue in France. Although able men have claimed this issue as asset currency, I cannot understand the force of their reasoning in the face of the facts.

The Bank of France of late years has had approximately $700,000,000 of circulating notes outstanding, and has kept about 90 per cent. of its outstanding notes in coin in its vaults. That great reserve of coin naturally inspires confidence. The balance of 10 per cent. asset currency

even, is practically covered by loans to the Government, so the bank could pay every dollar of its notes by selling its Government paper without calling a dollar of its loans. The Bank of France is more a bank of issue than a bank of deposit, as its issues have averaged five times its deposits for the past five years.

GERMANY.

The Imperial or Reichsbank of Germany is allowed a maximum issue of uncovered notes to the amount of about 50 million dollars, but does not exercise the privilege. For ten years past it has had a metallic reserve of over 90 per cent. on an average circulation of about 240 million dollars. The other 32 large banks are allowed to issue asset circulation to the extent of the comparatively insignificant sum of 22 million dollars, any excess being covered by treasury notes (which notes are fully covered by gold in the Government war chest), notes of other banks, or coin. On page 192, Root says "The National or (Imperial) Bank is the center of the system, with the evident intent on the part of the Government ultimately to transfer to it the "*sole right of issue*."

CANADA.

Canada has 38 banks with over 60 millions of dollars of capital and 28 millions of surplus. They issue currency based on a 5 per cent. deposit and first lien on assets.

These *large* banks are very conservatively managed largely by able British or Scotch financiers who know the penalty of bad banking. No bank with less than a half million dollars of subscribed capital is allowed to issue currency. (Our proposition is to grant the right to banks having as low as $25,000. capital.)

The following countries have only one bank of issue, to-wit:

	Capital.	Reserves required on notes issued
The Bank of Austria.....	45 mil. dols..	40 per cent. coin and 60 per cent. quick assets.
Bank of Belgium.....	10 mil. dols..	33⅓ per cent. coin on notes and deposits.
Bank of Netherlands...	6 4-10 mil. dols..	33⅓ per cent. coin on notes and deposits.
Bank of Norway.....	3½ mil. dols..	50 per cent. as to notes in coin.
National Bank of Denmark.	7¼ mil. dols..	37½ per cent. as to notes in coin and 150 per cent good assets besides.
Imperial Bank of Russia..	20 mil. dols..	over 100 per cent.

The latter bank held July 1st, 1898, nearly 600 million dollars gold (the largest single holding in the world, see U.

S. mint report 1898, page 494) and for 15 years has constantly been accumulating it. Russia announced in June it would pay all its demand notes in gold. There are three large banks in Italy and three in Greece.

Sweeden has a large state bank and some private banks that issue currency based on a deposit of mortgages, etc., in public custody.

Switzerland is now discussing a reformation of its banking system.

Is it not clear from the foregoing that the great centralized institutions of European nations are assuming the issuing functions of the currency? As a conclusive proof that the trend of the European banks is toward a metallic reserve for practically all note issues and that they are gradually eliminating asset or credit currency, I respectfully refer you to an article in "L Economiste Europeen" of October 14, by Prof. Edmund Thery, (or to Bankers' Magazine, N. Y., for December 1898, page 903.) He declares that all European Banks of circulation in

1883 had a gold reserve of.....	29	per cent.	of	circulation
" silver reserve of	16	"	"	"
Total coin reserve of.....	45	"	"	"
1897 they had a gold reserve of.....	57	"	"	"
" silver.....	17	"	"	"
Total coin reserve.....	74	"	"	"

The gold coin increasing from 700 million dollars to 1700 millions in the past 15 years. Further he says: "*In all sound money countries the bank note is in course of becoming a simple gold certificate redeemable on demand.*" That I affirm is "True Currency Reform."

What about former New England Banking, The Suffolk system, The banks of Indiana and Louisana and several others quoted by the advocates of the Monetary Commission plan? Simply this: On pages 302, 3 and 4 of the Report of the Monetary Commission, under the head of New England Bank Currency, we find that "in some states an unlimited liability for both notes and deposits was enforced upon the officers in case of mismanagement. In some instances the stockholders were liable to the amount of their stock for the ultimate payment of the notes; and in Rhode Island they were subject to unlimited liability." In the Sound Currency Red Book heretofore referred to, in an article by Horace White, pages 207 to 210 we find

under the head of "State Bank of Indiana"—"On all applications for loans above $500., a majority vote of five-sevenths of the board was necessary, and this must be entered on the minutes with the names of the directors so voting. Directors were individually liable for losses resulting from infraction of the law, unless they had voted against the same and caused their votes to be entered on the minutes, and had notified the Governor of the State of such infraction forthwith, and had published their dissent in the nearest newspaper. Any absent director should be deemed to have concurred in the action of the board, unless he should make his dissent known in like manner within six-months."

"LOUISIANA BANK ACT OF 1842."

We find:

1st. A specie reserve equal to *one-third* of all its (the Bank's) liabilities to the public.

2d. The other two-thirds of its liabilities to be represented by commercial paper having not more than 90 days to run.

3rd. All commercial paper to be paid at maturity, and if not paid, or if an extension were asked for, the account of the party to be closed and his name to be sent to the other banks as a delinquent.

4th, All banks to be examined by a board of State officers quarterly or oftener.

5th. Bank directors to be individually liable for all loans or investments made in violation of the law, unless they could show they had voted against the same if present etc.

The National Bank rule for reserves is 6 per cent. cash and 9 per cent. with reserve agents, total 15 per cent. for country banks and 25 per cent. cash for city banks. In a comparative sense, how much 90 day commercial paper do country banks hold, or even city banks, that is paid when due?

Reference is further made to the Massachusetts and the Suffolk Bank systems, but for lack of time I refer any one desiring further light to the pages in question.

I will simply say that I have no doubt that the underlying cause why the systems were abandoned was because of the much more rigid rules that governed the systems and larger liability of the directors for their acts, than are the regulations governing the present National Banking system. I have the best of reasons for asserting that the rules now governing the National Banking System are about as rigid as the bankers will stand and maintain the

system. Banking systems are like the prohibition question. When you draw the lines too closely, the personal liberty temperate drinker, who ordinarily votes to regulate the traffic, kicks traces and then the bars all come down, I affirm that our present National Banking system is the best and safest all around system ever devised, and a happy medium between two extremes of too loose and too rigid banking laws.

I ask with all seriousness is there a parallel case on earth to the present proposal giving the right to issue currency by as many of the 3,600 independent National banks in the United States, covering big city and small $25,000 country banks as well as the thousands of others that may adopt the National Currency Act, to the full amount of their capital stock, secured by a 5 per cent. cash deposit, and a first lien on assetts? I can find none. I affirm it is simply a discarded unsuccessful experiment of older nations.

McCLEARY BILL.

The McCleary plan of issuing currency provides, that banks *must* issue from 25 to 40 per cent. of their capital based on first lien on assets and an equal sum on the same plan as soon as the Government bonds now deposited are withdrawn, which withdrawal the bill provides for in the course of a few years, and a still further like sum in what he calls National Reserve notes, which are to be given to banks upon the deposit by each bank with the Comptroller of the Currency of a sum in legal tender notes equal to from 25 per cent. to 40 per cent. of its capital stock and receiving in return therefor an equal amount of National Reserve Notes. Then the bank must redeem all notes issued in gold on demand. The issue of reserve notes the bill provides shall be finally redeemed and paid for in gold by the U. S. Government in case of failure or liquidation of the issuing bank. Is it not a serious question whether or not the banks are willing to permanently loan to the Government from 25 to 40 per cent. of their capital outright without interest, for the privilege of having double the amount of National Reserve Notes outstanding, in notes based on first lien on assets, and the burden of redeeming their whole circulation laid upon the banks issuing the currency? I do not care to express an opinion. It is clearly open to the objections raised as to the issue of currency secured on general assets.

As a prudent proposition, who would deposit a sum equal to 80 or 100 per cent. of the capital of any or all banks asking

it, even if you had a first lien on the bank's assets? Yet this in fact is the proposition presented in the bills under consideration.

DEPOSITORS LOSE.

The forcible argument of Comptroller Dawes that asset currency in case of failure of banks, tends to reduce the dividends to depositors as compared with the present system with a bond deposit, is perfectly clear to my mind.

Banks in trouble always strain every point to keep from suspending by parting with quick assets at command to raise cash, and in case of failure under the proposed law there are no Government bonds on deposit to secure outstanding notes, therefore the note holders having the first lien, take the cream of the assets and leave the dregs to the unfortunate depositors, under their second lien. Under the bond deposit rule, the bonds can neither be spouted nor sold, therefore they take care of the circulation outstanding and leave a handsome surplus in addition to divide among the depositors along with the proceeds of the general assets. Is it not clear under such circumstances that distrust is sure to seize upon the great army of depositors when financial troubles are pending, because of the fact that in case of failure their claims are a second lien on assets and their dividends will be abridged, and coupled with the unreasoning demands of the note holder because of credit currency, great fear will fall upon all and wilder panic is sure to follow?

The test of systems comes when confidence is skaken, not when the financial skies are clear. When credit is shaken, credit currency adds fuel to the fire, while no man loses sleep with a U. S. Government bond or gold behind his Bank bills.

What then is "TRUE CURRENCY REFORM" for the people of the U. S.?

My answer is:

1st. Congress should at once pass a law to pay all public and private obligations in gold coin.

2d. The present large quantity of silver or silver certificates shall be maintained at a parity with gold with the pledge of the faith and credit of the United States to do it. This is all the bulky inferior currency this country should be asked to maintain.

3d. The Government should set apart in a separate division of issue and redemption department its surplus gold—in excess of $50,000,000 for current uses—as a special deposit for the redemption of United States notes outstanding, which

sum should be added to as soon the income of the Government exceeds its expenditures and until its fund of gold coin equals the outstanding notes in circulation. In the meantime, sell bonds if necessary to maintain its pledges. (It is no more a crime for Government to borrow than for individuals. Reason should reign and not political pettifoggery.)

4th. When any note issued by the United States is redeemed in gold it should not be re-issued. President McKinley is sound in advocating this point.

5th. Allow anyone to deposit gold coin or bullion in the issue and redemption division of the Government in any amount not less then $1,000 and receive therefor an equal amount of gold certificates.

GOLD CERTIFICATES VS. CREDIT CURRENCY.

Why the Government refuses to issue gold certificates unconditionally on a deposit of gold coin or bullion *and make such certificates a legal tender*, which they are not now, is beyond my comprehension. While this country is being flooded with creamy gold, why not use it as a basis for the issue of legal tender in unlimited quantities, because of the inconvenience and abrasion of the coin? Not to make provision for its largest possible use to serve as the best currency any people can have, is unpardonable. It is now kicked about like a football, nobody wants it.

The Banks of England and France issue legal tender notes practically to an unlimited amount with coin reserves, and these rich countries are full of the yellow metal, and *credit currency* is no nightmare to disturb their slumbers. In these days of the greatest production of gold in the world's history, give the people of the United States the same opportunities and credit currency will soon give way to a sufficient metalic reserve, represented by gold and silver certificates, to fill the channels of circulation and remove any cause for distrust hereafter. The U. S. has added without effort $200,000,000., in gold to its circulation within the past year or so. This country now holds over $900,000,000 of gold, which sum exceeds that of any other nation. An increase of about $200,000,000., more on the part of the Government would put a gold dollar behind every Government note outstanding—except silver certificates—and the banks should take care of their issues themselves. Political Economists declare that rich countries like this will have all the coin they need,

providing no impolitic act of legislation forces it out of circulation by filling the channels with inferior currencies.

Dr. Adam Smith gives a pat illustration, to-wit: "Money, like wine, must always be scarce with those who have neither the wherewithal to buy or the credit to borrow it. Those who have either, will seldom be in want of either the money or the wine which they have occasion for, and a country that has wherewithal to buy gold or silver, will never be in want of those metals." I am strongly impressed that the United States has the wherewithal to buy all the gold and silver we need for a basis for our circulating medium. If some of the poor sections of our country are short on circulation, is it not because they are also short on collateral, or wherewithal to buy it?

NOTE ISSUES NOT A NECESSARY FUNCTION OF BANKS.

6th. As rapidly as U. S. notes are redeemed and cancelled, allow the National Banks to issue currency based on bonds to the face of the bonds, and to the amount of 80 or 90 per cent. of their capital stock, relieve them from the tax of 1 per cent. on circulation and compel them to redeem in gold coin. By the time the Government bonds are all paid by the Government, discontinue the issue of bank currency entirely except for the 10 or 20 per cent. hereinafter provided to cover the elastic problem, thus leaving all National, State, and Private banks on the same footing, and wiping out the deep seated prejudice against National Banks. By far a large majority of the banks of this country, as well as of Europe, are doing business without the issue of currency, conclusively proving that it is not necessary for us to cling to that idea. Long before the bonds of the Government will be paid, this great country will have all the coin it needs as a basis for all circulation and the subject of credit currency will be a bugbear of the past.

ELASTICITY.

As to the Elastic Problem, that subject has troubled the financiers and economists for ages and it is not satisfactorily solved yet. Keep your credit good, and with easy and quick transportation, the world will lend to you in need. As to having cash enough to fill all demands in times of panic, that time will never come.

If we should issue credit currency at all to cover emergencies, the plan proposed by Comptroller Dawes is eminently the

soundest, and if a right to issue currency equal to 10 or 20 per cent. of a bank's capital is allowed, it should be subject to a tax of ½ of 1 per cent. per month while it is outstanding, and no bank should keep out such circulation to exceed three months in any year without the consent of the Comptroller of the Currency. This tax should be held as a reserve fund to cover any losses on account of failures of banks to redeem in full. Or, instead of this plan, legalize Clearing House Certificates and give them form for general use in case of panic, and the best business talent will soon see them cancelled after their temporary work is done.

BRANCH BANKS.

As to branch banks in the U. S. I will simply say. If any political party fathers the plan and carries it to a conclusion, with the feeling in this country against monopolies, the result will be the doom of the country banker's individualism and the downfall of the party responsible for the law.

No man can charge me with bad motives for opposing asset currency, for if banks make more money under the proposed system, the bank of which I am president will share in the benefits. I oppose the plans because I consider them acts of inflation under unsafe restrictions, the result of which is sure to be financial disaster.

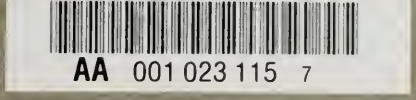
The whole matter is now with our statesmen. Will they rise to the dignity of the occasion by giving us True Currency Reform instead of giving the toper another drink and calling that reform?

Let us not take a single step backward in an attempt to lay a foundation on the shifting sands of a *credit currency;* but let us press forward without flinching, disregarding the political trimmers and lay such a sure metallic foundation for our future greatness, that we shall soon see the World's financial center planted in New York instead of London where it has been since the adoption by Great Britian of the Gold Standard in 1816.

When this is accomplished the United States will be supreme in Agriculture, Manufacturing, Mining, Internal Transportation, Banking Power, Wealth, Annual Income and Humanitarianism as shown by the late war. Great Britain will alone then exceed us in Foreign Commerce and Shipping, which supremacy the indomitable Yankee is sure to win before the 20th century has long run its course.

ANDREW JAY FRAME.

Waukesha, Wisconsin, April 1899.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